

1 KINSELLA WEITZMAN ISER KUMP & ALDISERT LLP
 2 DALE F. KINSELLA (SBN 063370)
 3 dkinsella@kwikalaw.com
 4 JEREMIAH T. REYNOLDS (SBN 223554)
 5 jreynolds@kwikalaw.com
 6 DAVID W. SWIFT (SBN 235033)
 7 dswift@kwikalaw.com
 8 808 Wilshire Boulevard, 3rd Floor
 9 Santa Monica, California 90401
 Telephone: 310.566.9800
 Facsimile: 310.566.9850

7 Attorneys for Defendants and
 8 Counterplaintiffs, DOCULEX, INC.,
 9 CARL STRANG, TERRY MORGAN,
 DAVID BAILEY, JIM GREBEY, and
 DAVID GRIFFITH

10 **UNITED STATES DISTRICT COURT**
 11 **NORTHERN DISTRICT OF CALIFORNIA**
 12 **SAN FRANCISCO DIVISION**

13 EXPEREXCHANGE, INC., a
 14 California Corporation, DBA:
 EXPERVISION,

15 Plaintiff,

16 vs.

17 DOCULEX, INC., a Florida
 corporation; CARL STRANG, an
 individual; TERRY MORGAN, an
 individual; DAVID BAILEY, an
 individual; JIM GREBEY, an
 individual; DAVID GRIFFITH, an
 individual,

21 Defendants.

22 **AND RELATED CROSS CLAIM**

CASE NO. CV 08 3875 JCS

**DEFENDANTS' NOTICE OF
 MOTION AND MOTION FOR
 SUMMARY ADJUDICATION OF
 ISSUES; MEMORANDUM OF
 POINTS AND AUTHORITIES IN
 SUPPORT THEREOF**

[Supporting Declarations of Dale
 Kinsella; Carl Strang, III; Jim
 Grebey and Thomas Rump filed
 concurrently herewith]

Date: October 2, 2009
 Time: 9:30 A.M.
 Dept.: A, 15th Floor
 Before: Hon. Magistrate Judge Spero

1 TO ALL PARTIES AND THEIR ATTORNEYS OF RECORD:

2 PLEASE TAKE NOTICE that on October 2, 2009 at 9:30 a.m., Defendants
3 and Counter-Claimants DocuLex, Inc., Carl Strang, Terry Morgan, David Bailey,
4 David Griffith, and Jim Grebey (collectively "DocuLex") will move, and hereby do
5 move, for summary adjudication on all of Plaintiff ExperExchange, Inc.'s
6 ("Plaintiff") claims relating to DocuLex's Discovery Cracker product. The motion
7 will be heard in Courtroom A at 450 Golden Gate Avenue, San Francisco,
8 California.

9 This motion is brought pursuant to Rule 56 of the Federal Rules of Civil
10 Procedure and Local Rule 56 of the Northern District of California. It is made on
11 the grounds that the undisputed facts demonstrate that DocuLex's Discovery Cracker
12 product did not incorporate Plaintiff's software at issue in this lawsuit and is
13 therefore not an infringing product. Summary Adjudication should therefore be
14 granted on this issue.

15 The motion is also made on the grounds that Plaintiff has presented no
16 evidence which could support its claim that the Discovery Cracker product is a
17 contributory infringing product. Summary Adjudication should therefore be granted
18 on this issue.

19 In addition, Plaintiff has presented no evidence which could support any of its
20 claim that are based on the Discovery Cracker product. Summary Adjudication
21 should therefore be granted on this issue.

22

23 //

24 //

25 //

26 //

27 //

28 //

1 In support of its motion, DocuLex hereby submits its Memorandum of Points
2 and Authorities, and the Declarations of Dale Kinsella; Carl Strang, III; Jim Grebey;
3 and Thomas Rump.

4

5 DATED: August 7, 2009

6

7 KINSELLA WEITZMAN ISER KUMP &
8 ALDISERT LLP

9

10 By: 

11 Dale F. Kinsella
12 Attorneys for Defendants and
13 Counterplaintiffs, DOCULEX, INC.,
14 CARL STRANG, TERRY MORGAN,
15 DAVID BAILEY, JIM GREBEY, and
16 DAVID GRIFFITH

17
18
19
20
21
22
23
24
25
26
27
28

KINSELLA WEITZMAN ISER KUMP & ALDISERT LLP
808 WILSHIRE BOULEVARD, 3RD FLOOR
SANTA MONICA, CALIFORNIA 90401
TEL 310.566.9800 • FAX 310.566.9850

TABLE OF CONTENTS

		<u>Page</u>
1	TABLE OF CONTENTS	
2		
3		
4	I. INTRODUCTION	1
5	II. STATEMENT OF UNDISPUTED FACTS.....	1
6	A. DocuLex Enters Into a License Agreement With Plaintiff in 1999	1
7	B. In 2003, DocuLex Acquires the Discovery Cracker Product.....	2
8	C. From 2003 to 2007 DocuLex Sells the Discovery Cracker Product.....	2
9	D. In 2007, DocuLex Enters Into Negotiations With Plaintiff To License the RTK Software For Use in the Discovery Cracker Product.....	3
10	E. In August 2007, DocuLex Sells Its Litigation Division (Including the Discovery Cracker Product) to CT Summation	4
11	F. CT Summation Independently Negotiates License Agreement with Plaintiff to Add an OCR Engine to the Discovery Cracker Product.....	5
12	G. In February 2008, CT Summation Launches Discovery Cracker 5.1, Which (For the First Time) Includes an OCR Engine	5
13	H. In November 2008, Plaintiff Files Suit Against DocuLex Claiming <i>Inter Alia</i> that DocuLex's Discovery Cracker Product Had an OCR Engine and that Plaintiff was Entitled to a Percentage of the Acquisition Price CT Summation Paid to DocuLex	6
14	I. Plaintiff Finally Concedes that the Discovery Cracker Product Did Not Incorporate its RTK Software, Yet Plaintiff Continues to Claim Millions of Dollars in Damages Related to the Discovery Cracker Product Nevertheless	7
15	III. DEFENDANTS ARE ENTITLED TO SUMMARY ADJUDICATION ON ALL OF PLAINTIFF'S CLAIMS RELATING TO THE DISCOVERY CRACKER PRODUCT	8
16	A. The Discovery Cracker Product Cannot be a Direct Infringing Product Because it Does Not Incorporate Plaintiff's RTK Software.....	8
17	B. Plaintiff Has Presented No Evidence To Support its Claim that the Discovery Cracker Product is a Contributory Infringing Product.....	9
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		

1	1. Plaintiff Has Presented No Evidence of a Third Party's	9
2	Infringing Activity	
3	2. Plaintiff Has Presented No Evidence That DocuLex Knew	
4	of the Third Party's Infringing Activity (to the Extent	
5	There Ever Was Any Infringing Activity)	10
6	3. Plaintiff Has Presented No Evidence That DocuLex	
7	Induced, Caused, or Materially Contributed to the Third	
8	Party's Infringing Activity (to the Extent There Ever Was	
9	Any Infringing Activity)	11
10	C. To the Extent Any of Plaintiff's Remaining Claims are Based on	
11	the Discovery Cracker Product, Plaintiff Has Presented No	
12	Evidence to Support Those Claims	12
13	IV. CONCLUSION.....	12
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		

KINSELLA WEITZMAN ISER KUMP & ALDISERT LLP
 808 WILSHIRE BOULEVARD, 3RD FLOOR
 SANTA MONICA, CALIFORNIA 90401
 TEL 310.566.9800 • FAX 310.566.9850

TABLE OF AUTHORITIES

		<u>Page</u>
1	CASES	
5	<i>Celotex Corp. v. Catrett</i> , 477 U.S. 317 (1986).....	8
7	<i>Dream Games of Arizona, Inc. v. PC Onsite</i> , 561 F.3d 983 (9th Cir. 2009)	9
8	<i>Intellographics, Inc. v. Marvell Semiconductor, Inc.</i> , 2009 WL 330259 (N.D.Cal. 2009)	8
9	<i>Metro-Goldwyn-Mayer Studios Inc., et al. v. Grokster, Ltd., et al.</i> , 545 U.S. 913 (2005).....	11, 12
11	<i>Microsoft Corp. v. Suncrest Enterprise</i> , 2006 WL 1329881, *3 (N.D.Cal. 2006)	8
13	<i>Perfect 10, Inc. v. Visa Int'l Serv. Ass'n</i> , 494 F.3d 788 (9th Cir. 2007)	9, 11
14	<i>Sega Enterprises Ltd. v. MAPHIA</i> , 948 F.Supp. 923 (N.D.Cal. 1996).....	8
15	<i>UMG Recordings, Inc. v. Veoh Networks Inc.</i> , 2009 WL 334022, *6 (C.D.Cal. 2009)	11
17	RULES	
19	F.R.C.P. 56(c).....	8
20	
21	
22	
23	
24	
25	
26	
27	
28	

MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

3 Plaintiff ExperExchange, Inc. ("Plaintiff") alleges that Defendants DocuLex,
4 Inc., Carl Strang, Terry Morgan, David Bailey, David Griffith, and Jim Grebey
5 (collectively "DocuLex") have infringed Plaintiff's copyrights and trademarks by
6 using Plaintiff's RTK software in various products without proper authorization.
7 Much of Plaintiff's alleged damages, however, are premised on a DocuLex product
8 which does not utilize Plaintiff's software. Even though Plaintiff now concedes that
9 the DocuLex Discovery Cracker product does not incorporate Plaintiff's RTK
10 software, Plaintiff nevertheless maintains that it is entitled to millions of dollars in
11 damages relating to DocuLex's sale of this product. Because Plaintiff has presented
12 no evidence which could support its claims regarding the Discovery Cracker
13 product, summary adjudication should be granted on this issue.

II. STATEMENT OF UNDISPUTED FACTS

15 For purposes of brevity and economy, DocuLex hereby incorporates the entire
16 background and statement of facts from its Motion for Summary Judgment, filed on
17 July 23, 2009. This Statement of Undisputed Facts shall solely discuss Plaintiff's
18 claims as they relate to DocuLex's Discovery Cracker product.

A. DocuLex Enters Into a License Agreement With Plaintiff in 1999

20 In May of 1999, DocuLex entered into a Recognition Toolkit Software
21 License Agreement (the "License Agreement") with Plaintiff, which granted
22 DocuLex a non-exclusive license to use Plaintiff's RTK software in its products in
23 exchange for a royalty payment of \$50 per product sold. *See* Compl. ¶ 14. *See also*
24 Declaration of Dale Kinsella ("Kinsella Decl."), Ex. A. By its terms, the License
25 Agreement could be terminated by either party on a yearly basis or, if they chose not
26 to terminate, it would be renewed automatically in May of each year. *See* Kinsella
27 Decl., Ex. A at § 5(b).

1 Section 1(c) of the License Agreement grants DocuLex a non-exclusive
 2 license to "reproduce and distribute copies of the RTK, in executable form only,
 3 together with and as an integral and nonseverable part of the products manufactured
 4 and licensed by Licensee, as described more fully on Attachment 4 hereto." *Id.* at 1,
 5 § 1(c). Attachment 4 simply states "see attached." *Id.* at 10. Attached to
 6 Attachment 4 is a brochure for DocuLex's PDF.Capture product. *Id.* at 11.

7 Section 8(c) of the License Agreement states that Plaintiff "agrees that the
 8 types of products described in Attachment 4, and products similar in nature,
 9 including future versions of these product types, are approved by [Plaintiff] for use
 10 with the RTK." *Id.* at 3 (emphasis added).

11 **B. In 2003, DocuLex Acquires the Discovery Cracker Product**

12 In 2003, DocuLex acquired the Discovery Cracker product from a company
 13 called Advocate Solutions, Inc. based in Chicago. Declaration of Carl Strang, III
 14 ("Strang Decl."), ¶ 2. The Discovery Cracker product processes data (such as emails
 15 and Microsoft Word documents), extracts meta data, and converts the files to
 16 industry standard image files. *Id.*, ¶ 3. *See also* Declaration of Jim Grebey
 17 ("Grebey Decl."), ¶ 2. The Discovery Cracker product did not have an OCR engine
 18 because it processed electronic files, which were already in a text searchable format.
 19 Strang Decl., ¶ 4; Grebey Decl., ¶ 2.

20 **C. From 2003 to 2007 DocuLex Sells the Discovery Cracker Product**

21 Soon after DocuLex acquired the Discovery Cracker product, DocuLex began
 22 selling the product in substantially the same form as it was in while under the
 23 control of Advocate Solutions. Strang Decl., ¶ 5. During this time, the Discovery
 24 Cracker product did not incorporate Plaintiff's RTK software and did not have any
 25 OCR capability. *Id.*; Grebey Decl., ¶ 3. *See also* Deposition of David Griffith,
 26 attached as Ex. B to Kinsella Decl. ("Griffith Depo."), at 27:20-28:2 ("Q: That's all
 27 right. And what did – what OCR engine was used in Discovery Cracker back in
 28 2004? A: Discovery Cracker didn't use an OCR engine. The collection of electronic

1 documents gathers together documents that already contain text, and so OCR really
2 isn't necessary.").

3 From 2003 to 2007, DocuLex sold thousands of copies of the Discovery
4 Cracker product and earned approximately \$9.8 million in revenue from sales of the
5 Discovery Cracker product. Strang Decl., ¶ 6. The version of Discovery Cracker
6 sold by DocuLex during this time did not have any OCR capability and did not
7 incorporate Plaintiff's RTK software. Strang Decl., ¶ 7; Grebey Decl., ¶ 4. *See also*
8 Declaration of CT Summation General Manager Thomas Rump ("CT Summation
9 Decl."), ¶¶ 2-3.

10 **D. In 2007, DocuLex Enters Into Negotiations With Plaintiff To
11 License the RTK Software For Use in the Discovery Cracker
12 Product**

13 In July 2007, DocuLex approached Plaintiff about licensing Plaintiff's RTK
14 software for use in the Discovery Cracker product, thereby adding OCR capability
15 to the product. Strang Decl., ¶ 8; Grebey Decl., ¶ 5. Although the vast majority
16 (97%-99%) of the data files processed by the Discovery Cracker product were text
17 files which did not need to be OCR'ed (such as emails and Word documents),
18 DocuLex sought to add OCR capability for the small percentage of files which
19 would need to be OCR'ed in order to be searchable. Grebey Decl., ¶ 6. This project
20 was considered a minor upgrade, and DocuLex did not envision charging more for
21 the Discovery Cracker product once the OCR capability was added. *Id.*

22 During the negotiations, Bo Yan, Plaintiff's Chief Operations Officer and
23 President of US Operations, understood that the Discovery Cracker product did not
24 contain any OCR capability (and therefore did not contain Plaintiff's RTK software).
25 For example, on July 4, 2007, Bo Yan wrote to Plaintiff's CEO, Dr. Wang,
26 explaining the details of the product that DocuLex wanted to incorporate the RTK
27 software into:

28

The product is called Discovery Cracker (DC), a solution to search for legal electronic proof on a hard disk. It searches for the files on a hard disk and index them as legal evidences. It is on the market place, and there is no OCR support yet, which means it can only process text-based documents. ... According to Jim (COO) and Thom, adding OCR will only give the product a competitive edge, and they will not charge customers extra money for the OCR feature.

⁶ Kinsella Decl., Ex. C (emphasis added).

7 Shortly thereafter, Bo Yan removed himself from the license negotiations for
8 Discovery Cracker so that "[i]n case Doculex contacts me, I can claim I know
9 nothing about the detail negotiations."¹ Kinsella Decl., Ex. D ("Per our agreement,
10 please take me off the email loop. In case Doculex contacts me, I can claim that I
11 know nothing about the detail negotiations.") (emphasis added).

12 After much back and forth, the parties were unable to come to terms for a new
13 license agreement. Strang Decl., ¶ 8; Grebey Decl., ¶ 7. Accordingly, DocuLex
14 never incorporated Plaintiff's RTK software into the Discovery Cracker product.
15 Strang Decl., ¶ 8; Grebey Decl., ¶ 7.

E. In August 2007, DocuLex Sells Its Litigation Division (Including the Discovery Cracker Product) to CT Summation

18 In August 2007, DocuLex sold its Litigation Division (including the
19 Discovery Cracker product) to CT Summation, Inc. Strang Decl., ¶ 9; Grebey Decl.,
20 ¶ 8; CT Summation Decl., ¶ 1. The Discovery Cracker product acquired by CT
21 Summation did not have an OCR engine and did not incorporate Plaintiff's RTK
22 software. Strang Decl., ¶ 10; Grebey Decl., ¶ 9. Indeed, as part of this litigation,
23 DocuLex received a declaration from CT Summation stating: "Neither version 4.8x
24 nor 5.0x of Discovery Cracker included an OCR engine to create OCR text for

²⁶ Plaintiff has stated that Bo Yan currently resides in China and therefore cannot be subpoenaed to appear for deposition. *See Kinsella Decl.*, Ex. E. Plaintiff has also refused to produced Bo Yan for deposition or to help arrange his deposition. *Id.*

1 image-only files, either before or after the acquisition by CT."). CT Summation
 2 Decl., ¶¶ 2-3.

3 As part of the sale, the DocuLex engineers who worked on the Discovery
 4 Cracker product went to work at CT Summation. Strang Decl., ¶ 11; Grebey Decl.,
 5 ¶ 10.

6 **F. CT Summation Independently Negotiates License Agreement with
 7 Plaintiff to Add an OCR Engine to the Discovery Cracker Product**

8 A few months after CT Summation acquired the Discovery Cracker product,
 9 CT Summation independently negotiated with Plaintiff to license Plaintiff's RTK
 10 software for use in the Discovery Cracker product. CT Summation Decl., ¶ 4
 11 ("After the acquisition in August 2007, CT independently negotiated a license
 12 agreement with ExperExchange, Inc. ("ExperExchange") pursuant to which CT
 13 became licensed to use ExperExchange's OCR engine to create OCR text for image-
 14 only files."). *See also* Grebey Decl., ¶ 11. On October 5, 2007, as part of the
 15 license negotiations, CT Summation wrote to Plaintiff to "explain the functionality
 16 of our products and how we plan to incorporate your OCR product." Kinsella Decl.,
 17 Ex. F (emphasis added). CT Summation explained that "we do not have an OCR
 18 engine [in the Discovery Cracker product]." *Id.* (emphasis added). CT Summation
 19 further explained to Plaintiff that the OCR engine represented a very minor upgrade
 20 and "[b]ecause of this, we do not plan to increase the price of the product ..." *Id.*
 21 (emphasis added).

22 On October 10, 2007, CT Summation entered into a License Agreement with
 23 Plaintiff to incorporate Plaintiff's RTK software into the Discovery Cracker product.
 24 Kinsella Decl., Ex. G. *See also* CT Summation Decl., ¶ 4; Gebey Decl., ¶ 12.

25 **G. In February 2008, CT Summation Launches Discovery Cracker
 26 5.1, Which (For the First Time) Includes an OCR Engine**

27 In February 2008, four months after it entered into a license agreement with
 28 Plaintiff, CT Summation launched its Discovery Cracker 5.1 product, which

1 incorporated Plaintiff's RTK software. CT Summation Decl., ¶ 5 ("After execution
 2 of the license agreement with ExperExchange, CT later incorporated
 3 ExperExchange's OCR engine into a new version of Discovery Cracker, called
 4 Version 5.1, to capture OCR text from image-only files. CT began selling that
 5 version to the public in February 2008."). *See also* Grebey Decl., ¶ 13. This was
 6 the first version of the Discovery Cracker product which had OCR capability and
 7 which incorporated Plaintiff's RTK software. Grebey Decl., ¶ 13; Strang Decl., ¶¶
 8 5, 7, 10; CT Summation Decl., ¶¶ 2-3.

9 **H. In November 2008, Plaintiff Files Suit Against DocuLex Claiming**
 10 ***Inter Alia* that DocuLex's Discovery Cracker Product Had an OCR**
 11 **Engine and that Plaintiff was Entitled to a Percentage of the**
 12 **Acquisition Price CT Summation Paid to DocuLex**

13 In November 2008, Plaintiff filed the present lawsuit alleging that DocuLex
 14 infringed Plaintiff's copyrights and trademarks by using Plaintiff's RTK software in
 15 various products without proper authorization. *See* Complaint. Included in
 16 Plaintiff's list of infringing products was the Discovery Cracker product. *See id.*,
 17 Ex. D. *See also id.*, ¶ 16.

18 Although DocuLex has explained numerous times to Plaintiff that the
 19 Discovery Cracker product did not incorporate Plaintiff's RTK software, Plaintiff
 20 remained undeterred. *See* Kinsella Decl., Ex. H. DocuLex even provided Plaintiff
 21 with a copy of the Discovery Cracker product as it existed at DocuLex so Plaintiff
 22 could confirm that the product did not contain Plaintiff's RTK software. *Id.*

23

24

25

26

27

28

KINSELLA WEITZMAN ISER KUMP & ALDISERT LLP
 808 WILSHIRE BOULEVARD, 3RD FLOOR
 SANTA MONICA, CALIFORNIA 90401
 TEL 310.566.9800 • FAX 310.566.9850

1 Nevertheless, Plaintiff focused the majority of its discovery efforts on the
 2 Discovery Cracker product and (until very recently) continued to claim that the
 3 Discovery Cracker product incorporated its RTK software.²

4 **I. Plaintiff Finally Concedes that the Discovery Cracker Product Did**
 5 **Not Incorporate its RTK Software, Yet Plaintiff Continues to**
 6 **Claim Millions of Dollars in Damages Related to the Discovery**
 7 **Cracker Product Nevertheless**

8 After examining the Discovery Cracker product, Plaintiff finally conceded
 9 that the Discovery Cracker product did not incorporate Plaintiff's RTK software.
 10 *See* Kinsella Decl., Ex. M ("Discovery Cracker doesn't incorporate RTK.").
 11 Nevertheless, Plaintiff continues to assert that it is entitled to recover millions of
 12 dollars in damages as a result of DocuLex's sale of this product. *Id.*

13 Plaintiff's latest argument appears to be that the Discovery Cracker is a
 14 contributory infringing product because it exports files in industry standard formats,
 15 which could conceivably be input into various other products. *See id* ("Discovery
 16 Cracker doesn't incorporate RTK. However, it can export image files to Doculex 5
 17 tables (Doculex 5 Batch Format) which can be read and OCRed by IP Studio,
 18 Professional Capture and Office Capture etc. ... Since the Doculex 5 Tables and
 19 Discovery Database Formats are not allowed in the 1999 RSLA, Discovery Cracker
 20 is considered to be a contributory infringing product.").

21

22 ² *See, e.g.*, Kinsella Decl., Ex. I ("Your objections are irrelevant as we know
 23 Discovery Cracker incorporated the RTK and we have a right to these documents
 24 for damage calculations.") (emphasis added); Kinsella Decl., Ex. J ("Doculex is
 25 avoiding its discovery responsibility as we have facts to demonstrate that Discovery
 26 Cracker incorporated Plaintiff's RTK and was offered to CT Summation.")
 27 (emphasis added). *See also* Deposition of Dr. Wang attached as Exhibit K to
 28 Kinsella Decl., at 46:20-23 ("Q: Do you know, as you sit here today, whether it's
 true that your technology is in Discovery Cracker? A: It's true."); Deposition of
 Troy Sarmento attached as Exhibit L to Kinsella Decl., at 142:21-143:1 ("Q: Okay.
 So the engineering team – ExperExchange's engineering team informed you that
 they had analyzed the Discovery Cracker product and that it incorp – it did indeed
 incorporate ExperExchange's RTK software? A: That is correct.").
 28

1 **III. DEFENDANTS ARE ENTITLED TO SUMMARY ADJUDICATION**
 2 **ON ALL OF PLAINTIFF'S CLAIMS RELATING TO THE**
 3 **DISCOVERY CRACKER PRODUCT**

4 Summary judgment is appropriate "if the pleadings, depositions, answers to
 5 interrogatories, and admissions on file, together with affidavits, if any, show that
 6 there is no genuine issue as to any material fact and that the moving party is entitled
 7 to judgment as a matter of law." *Intelligraphics, Inc. v. Marvell Semiconductor, Inc.*, 2009 WL 330259 (N.D.Cal. 2009) (quoting F.R.C.P. 56(c)). When the
 8 nonmoving party has the burden of proof at trial, as here, the moving party need
 9 only point out "that there is an absence of evidence to support the nonmoving
 10 party." *Celotex Corp. v. Catrett*, 477 U.S. 317, 325 (1986). Because Plaintiff has
 11 presented no evidence regarding the Discovery Cracker product which would allow
 12 it to recover on any of its claims, summary adjudication should be granted.

14 **A. The Discovery Cracker Product Cannot be a Direct Infringing
 15 Product Because it Does Not Incorporate Plaintiff's RTK Software**

16 "A claim of copyright infringement requires a showing of two elements: (1)
 17 the plaintiff has a valid copyright in the work and (2) the defendant infringed the
 18 copyright." *Microsoft Corp. v. Suncrest Enterprise*, 2006 WL 1329881, *3
 19 (N.D.Cal. 2006). *See also Sega Enterprises Ltd. v. MAPHIA*, 948 F.Supp. 923, 931
 20 (N.D.Cal. 1996) ("To establish a prima facie case of direct copyright infringement,
 21 [plaintiff] must prove (1) ownership of a valid copyright in the infringed work, and
 22 (2) 'copying' by the defendant.").

23 Here, Plaintiff has presented no evidence that the Discovery Cracker product
 24 infringed Plaintiff's copyright. Nor can it, because it is undisputed that the
 25 Discovery Cracker product did not incorporate Plaintiff's software. *See* Kinsella
 26 Decl., Ex. M ("Discovery Cracker doesn't incorporate RTK."). Accordingly,
 27 DocuLex's Discovery Cracker Product cannot have infringed Plaintiff's copyright.

1 **B. Plaintiff Has Presented No Evidence To Support its Claim that the**
 2 **Discovery Cracker Product is a Contributory Infringing Product**

3 Although Plaintiff's theories have been moving targets over the last few
 4 months, Plaintiff's latest theory appears to be that the Discovery Cracker product
 5 somehow indirectly used Plaintiff's RTK Software and is therefore a contributory
 6 infringing product. *See Kinsella Decl., Ex. M* ("Discovery Cracker doesn't
 7 incorporate RTK. However, it can export image files to Doculex 5 tables (Doculex
 8 5 Batch Format) which can be read and OCRed by IP Studio, Professional Capture
 9 and Office Capture etc. ... Since the Doculex 5 Tables and Discovery Database
 10 Formats are not allowed in the 1999 RSLA, *Discovery Cracker is considered to be a*
 11 *contributory infringing product.*") (emphasis added).

12 "While direct infringement requires proof of unlawful copying, contributory
 13 infringement requires proof that a defendant '(1) has knowledge of a third party's
 14 infringing activity, and (2) induces, causes, or materially contributes to the
 15 infringing conduct.'" *Dream Games of Arizona, Inc. v. PC Onsite*, 561 F.3d 983,
 16 995 (9th Cir. 2009) (quoting *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788,
 17 795 (9th Cir. 2007)). Simply put, Plaintiff has presented no evidence to support its
 18 claim that the Discovery Cracker product constitutes contributory infringement.

19 1. Plaintiff Has Presented No Evidence of a Third Party's Infringing
 20 Activity

21 As a threshold issue, Plaintiff's claims fail because it has not presented any
 22 evidence of a third party's infringing activity. Without an infringement of Plaintiff's
 23 copyright by a third party, there can be no infringing activity for DocuLex to induce
 24 or contribute to. Plaintiff appears to argue that a third party who purchased the
 25 DocuLex Discovery Cracker product could conceivably take the output from that
 26 product (industry standard image files) and input those files into another DocuLex
 27 product to be OCR'ed. *See Kinsella Decl., Ex. M*. There are a number of problems
 28 with this argument. First, Plaintiff has presented no evidence that a third party

1 actually used the Discovery Cracker product in this manner. Second, Plaintiff has
 2 presented no evidence of how such a use would violate its copyright on the RTK
 3 software. Plaintiff has not suggested why a third party who used a DocuLex product
 4 to OCR an image file (for which DocuLex paid royalties to Plaintiff) would be
 5 engaging in an infringing activity because that image file came from another
 6 DocuLex product.

7 2. Plaintiff Has Presented No Evidence That DocuLex Knew of the
 8 Third Party's Infringing Activity (to the Extent There Ever Was
 9 Any Infringing Activity)

10 Even assuming, *arguendo*, that a third party took the output from the
 11 Discovery Cracker product and loaded it into DocuLex's IP Studio product (and
 12 assuming, *arguendo*, that this somehow infringed Plaintiff's copyright), Plaintiff has
 13 presented no evidence that DocuLex knew a third party was using its products in
 14 this manner. Plaintiff appears to address this issue by suggesting that "IP Studio has
 15 also been particularly marketed to work with Discovery Cracker to empower the
 16 latter with OCR provided by RTK." *See* Kinsella Decl., Ex. M. This is simply not
 17 correct. The Discovery Cracker product was never designed to be integrated with
 18 the IP Studio product and was never marketed or sold in that fashion. *See* Strang
 19 Decl., ¶ 12; Grebey Decl., ¶ 14.

20 Furthermore, a quick glance at DocuLex's financial statements confirms that
 21 DocuLex did not "bundle" its IP Studio product with the Discovery Cracker product.
 22 Specifically, from 2003 to 2007, DocuLex sold thousands of copies of the Discovery
 23 Cracker product and realized over \$9.8 million in revenue. Strang Decl., ¶ 6.
 24 During this same time period, only six of these same customers purchased
 25 DocuLex's IP Studio product along with the Discovery Cracker product. *Id.*

26
 27
 28

1 3. Plaintiff Has Presented No Evidence That DocuLex Induced,
 2 Caused, or Materially Contributed to the Third Party's Infringing
 3 Activity (to the Extent There Ever Was Any Infringing Activity)

4 Assuming, *arguendo*, that a third party took the output from the Discovery
 5 Cracker product and loaded it into DocuLex's IP Studio product (and assuming,
 6 *arguendo*, that this somehow infringed Plaintiff's copyright), Plaintiff's claims still
 7 fail because it has not put forth any evidence suggesting DocuLex designed the
 8 Discovery Cracker product "with the object of promoting its use to infringe
 9 copyright."³ *Perfect 10, Inc.*, 494 F.3d at 801 (quoting *Metro-Goldwyn-Mayer*
 10 *Studios Inc., et al. v. Grokster, Ltd., et al.*, 545 U.S. 913, 936 (2005)). *See also*
 11 *UMG Recordings, Inc. v. Veoh Networks Inc.*, 2009 WL 334022, *6 (C.D.Cal. 2009)
 12 ("Inducement to infringe copyright requires distribution of a device with the object
 13 of promoting its use to infringe copyright, as shown by clear expression or other
 14 affirmative steps taken to foster infringement.").

15 Not only is there no evidence to suggest that DocuLex induced purchasers of
 16 the Discovery Cracker product to utilize the OCR engine in DocuLex's IP Studio
 17 product, the evidence affirmatively demonstrates that DocuLex customers did not
 18 use these products in concert. *See* Strang Decl., ¶ 6 ("From 2003 to 2007, DocuLex
 19 sold thousands of copies of the Discovery Cracker product and earned
 20 approximately \$9.8 million in revenue from sales of the Discovery Cracker product.
 21 During this same time period, only six of these same customers purchased
 22 DocuLex's IP Studio product along with the Discovery Cracker product.").

23

24

25

³ Of course, DocuLex did not actually design the Discovery Cracker product. The Discovery Cracker product was designed by Advocate Solutions, from whom DocuLex purchased the product in 2003. Moreover, DocuLex sold the Discovery Cracker product from 2003 to 2007 in substantially the same form as it existed while at Advocate Solutions. Strang Decl., ¶ 5; Grebey Decl., ¶ 3.

26

27

28

1 As the Supreme Court summarized in *Grokster*:

2 In sum, where an article is good for nothing else but
 3 infringement, there is no legitimate public interest in its
 4 unlicensed availability, and there is no injustice in presuming
 5 or imputing an intent to infringe. Conversely, the doctrine
 6 absolves the equivocal conduct of selling an item with
 7 substantial lawful as well as unlawful uses, and limits liability
 8 to instances of more acute fault than the mere understanding
 9 that some of one's products will be misused. It leaves
 10 breathing room for innovation and a vigorous commerce.

11 *Grokster*, 545 U.S. at 923-33.

12 Because Plaintiff has presented no evidence of any of these considerations,
 13 summary adjudication should be granted on the Discovery Cracker issue.

14 **C. To the Extent Any of Plaintiff's Remaining Claims are Based on
 15 the Discovery Cracker Product, Plaintiff Has Presented No
 16 Evidence to Support Those Claims**

17 Because Plaintiff has presented no evidence regarding the Discovery Cracker
 18 product which would allow it to recover on any of its claims, summary adjudication
 19 should be granted.

20 **IV. CONCLUSION**

21 For the foregoing reasons, Defendants respectfully request the Court grant
 22 their motion for summary adjudication.

23 DATED: August 7, 2009

24 **KINSELLA WEITZMAN ISER KUMP &
 25 ALDISERT LLP**

26 By: 

27 Dale F. Kinsella

28 Attorneys for Defendants and
 Counterplaintiffs, DOCULEX, INC.,
 CARL STRANG, TERRY MORGAN,
 DAVID BAILEY, JIM GREBEY, and
 DAVID GRIFFITH